



# US GDP (Q2 2024 – third estimate and NIPA revisions)

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## The economy looks much better post-makeover

Real GDP growth was unchanged at 3.0% annualized in Q2, nearly double the modest 1.6% gain in Q1. The underlying growth mix shows domestic demand retained solid momentum through midyear, and we expect GDP growth will likely surpass 2.5% in Q3.

The Bureau of Economic Analysis' annual revisions to the national income and product accounts (NIPA) stole the limelight in what is traditionally a dull third estimate of backward-looking GDP data:

1. The trajectory for real GDP was revised notably higher so that the economy is now 1.3% larger than previously estimated. In fact, real GDP growth in 2023 reached an impressive 2.9% (up from 2.5%) further highlighting the US economy's global outperformance.
2. Real gross domestic income (GDI) was also revised up significantly with growth 3.5% year over year (y/y) in Q2, up from 2.0% y/y pre-NIPA revisions. The upward revisions reflected stronger household and corporate compensation with household income and corporate profits revised higher.
3. The personal saving rate was also revised notably higher from 3.3% in Q2 to 5.2%. This indicates healthier household finances heading into the back half of 2024.

The broad economic trend is now much more reassuring following the notable upward revisions to GDI. Real GDI grew 3.0% in Q1 (vs. 1.3% pre-revisions) and 3.4% in Q2 (vs. 2.0% pre-revisions). As such, real GDI was up 3.5% y/y in Q2 – now faster than the robust 3.0% y/y real GDP pace. The forward-looking gross domestic output (GDO) measure is now much more reassuring, pointing to underlying economic momentum in Q2 at 3.3% y/y.

On the inflation front, price pressures eased modestly in Q2 with headline inflation down 0.1 percentage point (ppt) to 2.6% y/y – the lowest since Q1 2021 – and core personal consumption expenditures (PCE) inflation softening 0.3ppt to 2.7% y/y – also the lowest since Q1 2021. We foresee headline and core PCE inflation around 2.5% y/y and 2.6% in Q4, respectively, and moving toward 2.0% in early 2025.

Overall, this latest snapshot of the US economy is reassuring as it indicates higher corporate profits – near a historic high at 13.2% of GDP – and stronger real household disposable income momentum at 3.1% y/y despite the labor market cooldown. While we remain keenly attentive to the softening employment trend, this report favors a soft landing of the economy.



Solid productivity growth remains the key pillar to the US economic outperformance while consumer prudence in the face of higher prices continues to drive disinflation. What appears to be unfolding before our eyes is a soft-landing scenario only the most optimistic dream of.

Signs of labor market softness and more benign inflation led the Federal Reserve to optimally implement a larger-than-usual 50 basis points (bps) rate cut early this month. Fed Chair Jerome Powell stressed that policy recalibration was aimed at preventing an excessive deterioration of labor market conditions while insisting on data-dependent policy optionality.

Looking ahead, the economy is poised to gradually cool into 2025 as restrictive monetary policy and elevated costs continue to curb private sector activity, but we believe recession risks are low. Households will spend more cautiously as labor market conditions and income growth soften further while still-elevated financing costs lead businesses to hire and invest with discretion. Importantly, lower inflation and interest rates and a more balanced labor market should set the stage for cooler but more sustainable economic growth in 2025. We foresee real GDP growth averaging 2.7% in 2024 and easing to 1.8% in 2025.

We anticipate the Fed to ease policy by 25bps at every meeting through June next year. This would translate into 50bps of rate cuts by year-end, putting the federal funds rate at 4.4% in December, and another 100bps of cuts to 3.4% in June 2025. However, with two more payroll reports due before the November meeting, the outlook could still shift. Should those reports indicate a notable softening of the labor market – with the unemployment rate rapidly edging up toward 4.5% – Powell could push for another 50bps cut in November.

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